



Internal Audit Report

Nursing Home Payment System July 2005



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July 19, 2005

Max W. Wilson, Chairman, Board of Supervisors
Fulton Brock, Supervisor, District I
Don Stapley, Supervisor, District II
Andrew Kunasek, District III
Mary Rose Wilcox, Supervisor, District V

We have completed our FY 2004-05 review of the Maricopa Managed Care Systems' (MMCS) nursing home payment system. The audit was performed in accordance with the annual audit plan approved by the Board of Supervisors.

Highlights of this report include the following:

- Of the payments selected for review, 13 percent were not accurate or did not agree with contract rate terms. Overpayments to nursing homes could be as much as \$714,000 annually.
- Significant system control weaknesses exist that could affect nursing home payment accuracy.

This report contains an executive summary, specific information on the areas reviewed, and the MMCS response to our recommendations. We have reviewed this information with the MMCS Chief Executive Officer, MMCS Chief Operations Officer, the Case Management Director, and the Claims & Encounters Operations Director. We appreciate the cooperation provided by MMCS management and staff. If you have any questions, or wish to discuss the information presented in this report, please contact Eve Murillo at 602-506-7245.

Sincerely,

A handwritten signature in cursive script that reads "Ross L. Tate".

Ross L. Tate
County Auditor

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Executive Summary

Payment Accuracy (Page 4)

If nursing home clients have income, the State of Arizona allows the nursing home to collect a certain “share of cost” from the clients. Accordingly, Maricopa Managed Care Systems’ payments to the nursing homes should be reduced by an equal amount. We detected payment errors related to share of cost deduction amounts and contract rates for 13 percent of clients reviewed. Overpayments to nursing homes due to share of cost issues may be as much as \$714,000 annually. Maricopa Managed Care Systems should strengthen controls over the nursing home claim payment process.

Payment System Controls (Page 6)

The Maricopa Managed Care Systems’ nursing home payment system has control weaknesses that could affect the accuracy of the \$108 million in claim payments it processes annually. We compared the State’s share of cost data to that of the nursing home payment system. Although share of cost data from the two systems appeared to generally reconcile, we identified variances and risks that could impact claim payment accuracy. Maricopa Managed Care Systems should take steps to ensure the nursing home payment system has adequate controls.



Introduction

Background

Maricopa County Long Term Care Program is a contracted Arizona Health Care Cost Containment System (AHCCCS) program with approximately 6,400 members, 45 percent of whom reside in nursing homes. AHCCCS requires these members, when able, to contribute a “share of cost” (SOC) to their nursing home care expense. Nursing homes collect SOC directly from the clients, and in turn, Maricopa Managed Care Systems (MMCS) deducts the SOC amount from its claim payments to the nursing homes. MMCS pays nursing homes approximately \$108 million annually for their claims, and deducts approximately \$21 million per year in SOC from these payments.

In May 2004, MMCS developed an internal nursing home payment system called “Nursing Home Roster Billing” (NHRB). MMCS fully implemented NHRB for all nursing homes in October 2004. NHRB is a web-based application that allows facilities to review payment data on-line for accuracy and to request adjustments, if needed. MMCS then processes NHRB remits (billing detail) for each nursing home, and issues checks.

Based on audit findings with the lack of accuracy of SOC deductions processed on the previous claim payment system (OAO), MMCS agreed that the new NHRB claim payment system should be reviewed for SOC accuracy.

Scope and Methodology

The objectives of this audit were to determine whether:

- NHRB SOC deductions and payments to nursing homes are accurate by comparing SOC deductions shown on NHRB-processed claims with AHCCCS SOC data
- NHRB-processed claims are paid in accordance with contract rates
- Controls over the NHRB system, data, and processed claims are adequate to ensure accuracy of claims paid and segregation of duties
- MMCS staff periodically reviews client trust fund documents located at the nursing homes

Two approaches were used to verify SOC accuracy:

- Compare a sample of SOC amounts shown in nursing home trust fund records obtained from an MMCS trust fund auditor to AHCCCS SOC data; then compare the amounts to NHRB SOC data (three-way match).
- Compare electronic AHCCCS data files to electronic NHRB data files and investigate significant SOC data variances.

Future Audit Consideration

The NHRB system was developed within the last year. This audit did not include any testing of the NHRB system's general control environment. Due to control and documentation issues arising in any system development, we recommend that future audit work include a post implementation review of the NHRB system

This audit was performed in accordance with generally accepted government auditing standards.

Issue 1 Payment Accuracy

Summary

If nursing home clients have income, the State of Arizona allows the nursing home to collect a certain “share of cost” from the clients. Accordingly, Maricopa Managed Care Systems’ payments to the nursing homes should be reduced by an equal amount. We detected payment errors related to share of cost deduction amounts and contract rates for 13 percent of clients reviewed. Overpayments to nursing homes due to share of cost issues may be as much as \$714,000 annually. Maricopa Managed Care Systems should strengthen controls over the nursing home claim payment process.

Compliance Requirements

The Arizona Health Care Cost Containment System (AHCCCS) approves client member eligibility and establishes client share of cost (SOC) based on income. AHCCCS authorizes nursing homes to collect SOC from client income sources and/or trust funds maintained at the nursing homes. MMCS is authorized to deduct SOC from claim payments to the nursing homes for member claims. MMCS contracts with the nursing homes to pay specific daily rates.

AHCCCS Data

AHCCCS electronically transmits SOC and other client information to MMCS at the end of each month; daily updates are also sent. MMCS updates its systems, including NHRB, to deduct SOC from nursing homes payments. MMCS staff indicated that the AHCCCS transmittal data does not appear 100 percent reliable and that SOC changes appear to be inconsistent. As Maricopa County has no jurisdiction over State AHCCCS files, we did not investigate the reliability of the AHCCCS SOC data. We used AHCCCS data as the “best available” source of client information.

Nursing Home Trust Funds and MMCS NHRB SOC Deductions

MMCS has clients at 63 nursing homes from which we judgmentally selected 11 (17.4%) nursing homes and 60 clients (239 claims) to test. The 60 clients represent approximately 2.1 percent of Maricopa Long Term Care Plan clients residing in nursing homes. Our test data was derived from records maintained by an MMCS auditor who visits nursing homes quarterly and reviews client trust fund documentation.

Our testing showed that NHRB generally deducts the correct SOC amount from billings and pays the claims at the correct rate and care level. However, we noted various payment or rate exceptions for eight of the 60 (13.3%) clients reviewed. We also noted significant control and documentation issues.

We observed that amended SOC information is sometimes faxed to nursing homes, eligibility workers, or case managers after billing cycles are complete. The information may be forwarded to MMCS claim processing, but nursing homes may or may not rebill claims. MMCS does not take additional action if nursing homes do not rebill claims or request adjustments. Based on available SOC data tested, we identified the following:

- MMCS overpaid a total of \$245 on two nursing home claims
- MMCS collected a total of \$1,112 in SOC that was not AHCCCS authorized from two facilities (\$587 from one facility and \$525 from another)
- MMCS does not always pay per diem rates in accordance with contract rates on file. We detected nine rate exceptions for six of the 60 clients we tested. Claims should have been paid at contract rates; in all but one case, facilities under-billed MMCS.

While reviewing client trust fund records retained by the MMCS' auditor, we made note of SOC deduction issues and other questionable items in the documentation. We referred these issues to Maricopa Case Management because nursing homes are under State, not County, jurisdiction.

Compare AHCCCS Files SOC to NHRB System Claims Paid

On a test basis, we compared electronic August and October 2004 AHCCCS membership SOC authorizations with NHRB files showing SOC amounts deducted from claims paid. Our comparison disclosed 92 exceptions:

- 28 paid claims where the NHRB SOC amount was greater than the AHCCCS authorization
- 64 paid claims where the NHRB SOC amount was less than the AHCCCS authorization (i.e., MMCS paid more to nursing homes than it needed to)

We researched 35 of the NHRB payments where SOC deductions were less than AHCCCS authorizations. MMCS overpaid three claims totaling \$5,105 to nursing homes. In two other cases, nursing homes deducted SOC of \$1,351 from client trust funds when no SOC was authorized and additionally received the \$1,351 from MMCS.

Impact

MMCS has not established adequate and effective controls to protect and ensure the validity of system data, the accuracy of SOC deductions and claims paid, and to ensure that documentation supports changes, adjustments, and exclusions. The volume of billings, exclusions, and adjustments exceeds the ability of the assigned staff to accurately monitor and handle the volume.

Based upon documentation we reviewed, we estimate that overpayments to nursing homes, due to share of cost issues, may be as much as \$714,000 annually.

Recommendations

MMCS should:

- A. Review and improve controls over the NHRB processing to include effective supervision and approval of claims paid, segregation of duties, adequate documentation to support claim payments, and installation of a quality control function to review processed claims.
- B. Establish procedures for the MMCS Trust Fund Auditor to periodically compare the SOC deductions from the client trust funds to the AHCCCS file SOC amount.

Issue 2 Payment System Controls

Summary

The Maricopa Managed Care Systems' nursing home payment system has control weaknesses that could affect the accuracy of the \$108 million in claim payments it processes annually. We compared the State's share of cost data to that of the nursing home payment system. Although share of cost data from the two systems appeared to generally reconcile, we identified variances and risks that could impact claim payment accuracy. Maricopa Managed Care Systems should take steps to ensure the nursing home payment system has adequate controls.

Compliance Requirements

For electronic data processing, requirements include segregation of duties within the data processing function for (a) system development, (b) technical support, and (c) operations. In small environments, procedures for user departments include input controls, controls to file changes, balancing files between processing cycles, reconciling output totals to input totals for data submitted, and having controls over data entry in on-line systems to restrict access to authorized users.

Standard accounting procedures require effective reconciling procedures for comparison of warrants or checks to appropriate detail on disbursement records, accounting for numerical sequence of items paid, and investigating and documenting unusual reconciling items.

Testing and NHRB Control Issues

The NHRB system was developed in-house by MMCS. Procedures were drafted and the system was piloted in May 2004, with full website implementation in October 2004. Our audit focused on testing claim payments and reviewing related system data, and did not include system tests for data validity, controlled access, or monitoring of program changes. However, during our testing of SOC deductions, we noted the following NHRB system and payment processing control weaknesses:

- We could not determine how monthly AHCCCS membership data was loaded into the MMCS system. MMCS staff were unable to explain how daily AHCCCS changes were loaded, and could not provide documentary evidence of daily system loads
- MMCS staff stated that they loaded AHCCCS data tapes into NHRB without verifying that the AHCCCS tape totals matched the amount posted to NHRB
- MMCS staff could not produce documentation showing a reconciliation of the NHRB totals to the general ledger account for monthly payments
- The NHRB system does not appear to have been rigorously tested prior to full implementation. The NHRB system data does not always appear reliable, based on issues we detected with remit (payment detail) totals being out of balance with check amounts:

- a. Balancing and reconciling issued checks to system remit totals was not documented and approved, evidenced by issued checks that did not balance to remit totals.
 - b. Testing to ensure that individual remit items were accounted for and included in the summary remit total was inadequate.
 - c. While pilot testing of the NHRB system may have taken place, out of balance remit issues seem to indicate the system was not thoroughly tested.
- Adjustments are not adequately documented to ensure that a reviewer has enough supporting documentation to ensure the accuracy of checks requested and items paid
 - It appears that any system user, including MMCS claim processors, provider service representatives, and Information Technology personnel can access the NHRB system and change data elements affecting payment amounts to facilities
 - Effective supervision is lacking and segregation of duties is not observed. Only one full-time employee and two part-time employees were previously assigned to handle all roster billings, exclusion billings, and adjustments and research. These same employees can process, adjust, and approve items. Given the NHRB claim volume, the claim processing and review function may be understaffed.
 - A separate audit function has not been established to ensure quality control of NHRB processed claims

Data and Payment Impact

MMCS developed the NHRB to improve nursing home claim payments. While MMCS produced policies and procedures, MMCS does not appear to have adequately tested the system to identify and detect problems and prevent claim payment errors. Reconciling and audit procedures were not implemented to monitor accuracy and control of system information downloads and claims processed.

Recommendations

MMCS should:

- A. Have an independent, outside agency perform a system application, access, and control review on the NHRB system.
- B. Perform a monthly comparison between the AHCCCS membership file and the NHRB file to identify potentially incorrect SOC payments. Discrepancies between the files should be investigated to ensure accuracy of SOC amounts. Results of file comparisons and audits should be maintained for documentation to support potential recoveries.
- C. Establish reconciling procedures for remits and checks paid and audit procedures for claims paid.

Department Response

MARICOPA MANAGED CARE SYSTEMS

Maricopa Health Plan

2502 E. University Dr.
Suite 125
Phoenix, AZ 85034

Maricopa Long Term Care Plan

Central Valley Office
2502 E. University Dr.
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Mesa, AZ 85204
(480) 344-8000
(480) 344-8088 fax

West Valley Office
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Phoenix, AZ 85051
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(623) 344-8699 fax

Customer Service

(602) 344-8760
1 (800) 582-8686

Authorization Unit

(602) 344-8111
1 (800) 552-8808

Provider Services

(602) 344-8957

Count on us to care.

TO: Ross Tate, County Auditor

FROM: Phyllis Biedess, CEO, MMCS

DATE: June 24, 2005

RE: Nursing Home Payment System Audit

We have reviewed the Nursing Home Payment System audit and we concur with the recommendations. Our actions on the recommendations will be as follows:

Issue 1 – Share of Cost Deductions

Response: Concur

Recommendation A: Review and improve controls over the NHRB processing to include effective supervision and approval of claims paid, segregation of duties, adequate documentation to support claim payments, and installation of a quality control function to review processed claims.

Response: Concur

On June 8, 2005, the Maricopa County Board of Supervisors voted to discontinue the Maricopa Long Term Care Plan (MLTCP) currently operated by the Maricopa Managed Care Systems (MMCS). Since this Plan terminates on 09/30/05, no action is required.

Target Completion Date: N/A

Benefits/Costs: N/A

Recommendation B: Establish procedures for the MMCS Trust Fund Auditor to periodically compare the SOC deductions from the client trust funds to the AHCCCS file SOC amount.

Response: Concur

On June 8, 2005, the Maricopa County Board of Supervisors voted to discontinue the Maricopa Long Term Care Plan (MLTCP) currently operated by the Maricopa Managed Care Systems (MMCS). Since this Plan terminates on 09/30/05, no action is required.

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Target Completion Date: N/A

Benefits/Costs: N/A

Issue 2 – NHRB System Controls

Response: Concur

Recommendation A: Have an independent, outside agency perform a system application, access, and control review on the NHRB system.

Response: Concur

On June 8, 2005, the Maricopa County Board of Supervisors voted to discontinue the Maricopa Long Term Care Plan (MLTCP) currently operated by the Maricopa Managed Care Systems (MMCS). Since this Plan terminates on 09/30/05, no action is required.

Target Completion Date: N/A

Benefits/Costs: N/A

Recommendation B: Perform a monthly comparison between the AHCCCS membership file and the NHRB file to identify potentially incorrect SOC payments. Discrepancies between the files should be investigated to ensure accuracy of SOC amounts. Results of file comparisons and audits should be maintained for documentation to support potential recoupments.

Response: Concur

On June 8, 2005, the Maricopa County Board of Supervisors voted to discontinue the Maricopa Long Term Care Plan (MLTCP) currently operated by the Maricopa Managed Care Systems (MMCS). Since this Plan terminates on 09/30/05, no action is required.

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June 24, 2005

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Target Completion Date: N/A

Benefits/Costs: N/A

Recommendation C: Establish reconciling procedures for remits and checks paid and audit procedures claims paid.

Response: Concur

On June 8, 2005, the Maricopa County Board of Supervisors voted to discontinue the Maricopa Long Term Care Plan (MLTCP) currently operated by the Maricopa Managed Care Systems (MMCS). Since this Plan terminates on 09/30/05, no action is required.

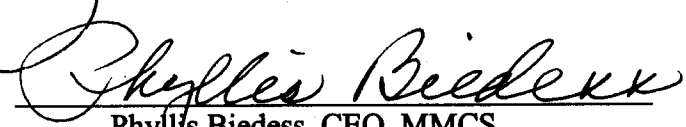
Target Completion Date: N/A


Benefits/Costs: N/A

Nursing Home Payment Systems Audit

Approved by:


Mike Schaiberger, COO, MMCS


Phyllis Biedess, CEO, MMCS


David Smith, CAO, Maricopa County